



Written Testimony for the Senate Higher Education Committee
Interim Hearing – April 26, 2010
Charge 1: Financial Aid - TEXAS Grant & B-On-Time Programs

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Charge 1: Financial Aid – TEXAS Grant & B-On-Time Programs

I. TEXAS Grant Background Information

A. Eligibility Requirements

- To receive an initial TEXAS Grant Award a student must:
 - ✓ Have financial need (cost of attendance less family contribution greater than zero)
 - ✓ Graduate with the Recommended High School Program (RHSP) or higher
 - ✓ Enter public higher education within 16 months of graduation
 - ✓ Be ranked among the neediest applicants (currently no more than a \$4,000 Expected Family Contribution (EFC))
 - ✓ Have not been convicted of a felony or a crime involving a controlled substance
 - ✓ Register for the Selective Service or be exempt from this requirement

Or

- ✓ Have earned an associate's degree from a public technical, state or community college in Texas and enroll in any public university in Texas no more than 12 months after receiving their associate's degree

To continue receiving a TEXAS Grant beyond the first year in college, students must meet *their institution's* academic progress requirements. However to continue receiving a grant beyond the second year of college, a student must:

- ✓ Have a cumulative GPA of 2.5 on a 4.0 scale
- ✓ Complete at least 24 semester credit hours per year

- ✓ Complete at least 75 percent of the semester credit hours they attempt per year

B. Current Funding Levels

- TEXAS Grant funding for the 2010-2011 was increased by \$186.4M

C. Number of Students Served

- In the current academic year, the Coordinating Board estimates that about 74 percent of first time entering freshmen meeting current program requirements (at an EFC of \$4,000 or less) will receive a TEXAS Grant (includes university and community college students).

D. Equity in Distribution

- A recent (FY2010) shift in initial award allocations will more equitably distribute TEXAS Grant funds to all community colleges and general academic teaching institutions compared to the previous practice. Coordinating Board rules and program guidelines give priority to renewal students that continue to meet program eligibility requirements and this year the Coordinating Board held sufficient funds to **renew 100 percent of the TEXAS Grant awards statewide**. All eligible renewal students have been assured of an award regardless of which public institution of higher education they are attending. Initial year funds were only allocated for an institution's share of needy students with an estimated family contribution (EFC) of \$4,000 or less.

II. Funding Increases by the Legislature

A. Funding

- Increases in funding by the 79th to the 80th Texas Legislature and even more so from the 80th to the 81st Legislature, has reestablished TEXAS Grant as a premier program on a national scale.

B. Percentage of Needy Students Served

- Growth in needy student population and growth in tuition and fees compounds the need for increases in TEXAS Grant exceptional items. Between FY2008 and FY2009, eligible initial students grew by about 8 percent.

C. Tuition and Fee Increases vs. TEXAS Grant Increases

- Even if tuition increases and needy student growth stabilized at 5 percent per year, it would require more than 20 percent growth in biennial funding to stay even.

III. Recommendations

- A. Limit awards in terms of hours and number of years
- B. Set a renewal EFC threshold
- C. Mandate institutions of higher education make a minimum number of initial TEXAS Grant awards
- D. Eliminate the requirement to make up differences in the award amount with other grant aid
- E. Raise the EFC only if funding is substantially increased

B-On-Time (BOT) Loan Program

I. BOT Background Information

- A. Funding Levels
- B. Eligibility Requirements
- C. Number of Students Served
- D. Communication with Borrowers

II. Concerns

- A. IRS Tax Rules
 - Possible tax consequences for a student when their BOT loans are forgiven. The Coordinating Board reports the forgiven amount in the year the loan is forgiven to the IRS and students may have to pay the IRS when they file their tax return that year. This could be a substantial cash outlay for a new graduate and would not be an unlikely event a student would incur debt in order to pay off their tax bill. If a student finishing in 2011 had four BOT loans, he/she would receive a 1099 for \$23,220.

B. Program Inconsistency

- Primary issue at institutions is lack of consistency of program funding (which we expect to have overcome for the coming year) and communication to students about the program.

C. Default Rates

- Default rates are very high (currently in excess of 22 percent for those students that are in repayment). Forgiveness rate is currently 32.5 percent.

D. Number of BOT Students

- The benefits of the program are realized by relatively few students compared to the many students that fund the program (through tuition set-asides). On a statewide average in FY2009, it took about 77 students paying tuition to fund one BOT award for one year.

E. Administrative Challenges at Community Colleges

- Community Colleges have not embraced the BOT program for a variety of reasons including:
 - ✓ Size of the award is limited to average tuition and fees, currently \$1780.
 - ✓ On a relative scale the program is too small and difficult to communicate to the average community college student for the amount of the award
 - ✓ Community colleges would much prefer to “grant” a student

III. Recommendations

- A.** Set-aside funding without General Revenue for public four-year institutions
- B.** Minimum level of General Revenue for independent institutions
- C.** Consistent funding